

AR43

Fourth Annual Report **1975**

Canopy



RENN INDUSTRIES INC.



Digitized by the Internet Archive
in 2024 with funding from
University of Alberta Library

https://archive.org/details/Renn2397_1975

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

Directors

Kenneth P. Hayes, C.A.
Osborne C. McKee, B.A., C.A.
Thomas F. Tyson, B.Comm., C.A.
Raymond J. Cupit, P.Eng.
Albert W. Jedel, R.I.A.
Merrill K. Morstad

Officers

Kenneth P. Hayes	Chairman of the Board
Thomas F. Tyson	President
George E. Scott	Secretary
Albert W. Jedel	Treasurer and Assistant Secretary

Office

3240 - 11 Street S.E.
Calgary, Alberta

Registered Office

Suite 1700 - 777 Hornby Street
Vancouver, British Columbia

Transfer Agent and Registrar

National Trust Company Ltd.
Vancouver, British Columbia
Calgary, Alberta

Auditors

Arthur Andersen & Co., Chartered Accountants
Calgary, Alberta

Legal Counsel

Meredith & Co.
Vancouver, British Columbia
Cox & Goss
Calgary, Alberta

Bank

Alberta Treasury Branch
Bank of British Columbia

Operating Subsidiaries

Renn-Cupit Industries Ltd.
Renn Sales (Calgary) Ltd.
Renn Sales Ltd.
B.R. Steel Fabricators Ltd.
East Kootenay Steel Ltd.

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

PRESIDENT'S REPORT TO SHAREHOLDERS

HIGHLIGHTS

In 1974, we forged a formula for progress. It was rooted in time-tested business principles: encouraging resourceful personnel; strengthening our product base; growing stronger as well as bigger; applying persistent pressure for sound management stewardship; living within our means; and insisting on disciplined controls.

In 1975, the application of this formula was the reason for another year of substantial progress for Renn Industries.

- ★ Sales increased by 28%, from \$11.2 million to \$14.3 million.
- ★ Operating income before income taxes climbed dramatically from \$475,000 to \$1,219,000.
- ★ Earnings per share before loss carry-forward benefit increased from 8.6¢ to 39.9¢

FINANCIAL REORGANIZATION

While our forward progress was encouraging in our unrelenting determination to grow within a controlled framework, we fell short of our potential because we were still constrained by a shortage of working capital. Our priorities and programs are attainable only if the appropriate amount of short and long term financing is available.

As Renn's second consecutive period of solid performance came to a close, we accelerated and broadened our overtures to financing intermediaries to obtain the financial resources that are necessary to maintain Renn's measured pace. We anticipate that we will be able to report successful negotiations for new financing in the near future.

The proceeds from the new financing will be used mainly to support larger accounts receivable and inventories as sales increase, pay off the debenture payable described in Note 5, invest selectively in research and development projects, upgrade our manufacturing plant and equipment thus ensuring competitively priced products from efficient, low cost facilities, extending the geographic reach of our marketing divisions, and adding experienced track-record personnel to bring fresh ideas and disciplines to our present competent roster.

THE STRATEGY FOR THE YEARS AHEAD

In 1974, the Management of Renn Industries developed long range guidelines that contained the following principal elements:

- ★ The penetration of the short-line farm equipment industry. This would involve a two-fold program to provide well balanced lines for dealers and distributors: the acquisition of complementary firms in Canada and the U.S.A.; and integrating backward to embrace more manufacturing.

- ★ The deployment of a greater proportion of Renn's resources for the exploitation of material handling markets.
- ★ Placing growing emphasis on fabricating and erecting plant and equipment for the coal mining industry, and providing after-sales service and parts distribution on a selective basis for the growing energy market.
- ★ Maintaining tight fiscal controls over all major classes of expenditures.
- ★ Recognizing that our success would be in direct correlation to our ability to select and hold superior personnel.

We have followed those general guidelines for 18 months. In 1974, we turned a difficult corner. In 1975, we made an immense stride forward.

A GLIMPSE INTO THE FUTURE

We approach 1976 with cautious optimism.

In Renn's Agricultural Division two patterns appear to be emerging. With respect to the cattle industry we project another year of dampened sales of equipment, although there are signs that this sector may strengthen in late 1976. With respect to seeding, cultivating and harvesting equipment, our prediction is clouded. It appears now that sales in 1976 will level off to the volume experienced in 1975, but this projection may be exceeded if sales of grain to foreign markets remain buoyant.

Competition for the sale of on-and-off highway material handling equipment will likely intensify from domestic and United States sources, and this situation may be aggravated by a lower level of public works and other construction projects. We may experience an erosion of our substantial market share of truck hoists and boxes in Western Canada, but it should be compensated in part by offering existing products with distinctively new features, intensifying our sales efforts, and introducing new products on a planned basis.

The coal mining industry is still growing, despite the fact that Governmental regulatory bodies have not issued complete environmental and energy policy statements for all regions. Hence, Renn Industries will commit even greater resources than heretofore to the energy industry, thus capitalizing on its momentum and reputation for integrity in fabricating and erecting plant and equipment for a growing number of coal mining firms in British Columbia and Alberta. At the time of writing this report to our shareholders there has been a noticeable slow-down in the release of capital and repair projects by coal mining firms during periods of collective bargaining, but we anticipate a surge of projects in the last half of the year.

We cannot expect increases in earnings per share as dramatic as the rate experienced in the last two years, but with the greater financial resources at our command, complemented by committed personnel, the future augurs well for the long term.

T. F. TYSON
President.

RENN INDUSTRIES INC.
and SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

as at October 31, 1975 and 1974 (\$ Thousands)

ASSETS

	1975	1974
CURRENT ASSETS:		
Accounts receivable (Note 5)	\$ 2,470	\$ 1,680
Inventories (Note 5)	1,878	1,582
Prepaid expenses and deposits	7	24
Total current assets	\$ 4,355	\$ 3,286
PROPERTY, PLANT AND EQUIPMENT (Notes 3, 5, and 6)	1,359	1,319
EXCESS OF COST OF INVESTMENTS IN SUBSIDIARIES OVER NET ASSETS AT DATES OF ACQUISITION	1,045	1,045
	<u>\$ 6,759</u>	<u>\$ 5,650</u>

ON BEHALF OF THE BOARD OF DIRECTORS

K. P. Hayes

.....
K. P. Hayes, Chairman

T. F. Tyson

.....
T. F. Tyson, President

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1975</u>	<u>1974</u>
CURRENT LIABILITIES:		
Bank indebtedness, secured	\$	\$ 328
Accounts payable and accrued charges (Note 4)	2,551	1,907
Debenture payable (Note 5)	99	438
Income taxes payable (Note 7)	495	47
Current portion of long-term debt (Note 6)	<u>185</u>	<u>153</u>
Total current liabilities	\$ 3,330	\$ 2,873
LONG-TERM DEBT, net of current portion (Note 6)	748	858
DEFERRED INCOME TAXES		27
SHAREHOLDERS' EQUITY	<u>2,681</u>	<u>1,892</u>
	<u>\$ 6,759</u>	<u>\$ 5,650</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended October 31, 1974 and October 31, 1975 (\$ Thousands)

	SHAREHOLDERS' EQUITY		
	SHARE CAPITAL	RETAINED EARNINGS* (DEFICIT)	TOTAL
Balance, October 31, 1973	\$ 1,802	\$ (462)	\$ 1,340
Shares issued - for cash	150		150
Cancellation of shares issued in error in 1972	(5)		(5)
Net income for the year		407	407
Balance, October 31, 1974	\$ 1,947	\$ (55)	\$ 1,892
Net income for the year		789	789
Balance, October 31, 1975	<u>\$ 1,947</u>	<u>\$ 734</u>	<u>\$ 2,681</u>

*Retained earnings (deficit) from September 1, 1971, date of reorganization as an industrial corporation.

SHARE CAPITAL

a) Authorized

4,992,000 common shares in 1975 and 1,742,000 common shares in 1974, without par value.

b) Issued

	NO. OF SHARES	DOLLAR AMOUNT
For cash	951,440	\$ 509,404
For other considerations	686,892	1,437,943
	<u>1,638,332</u>	<u>\$1,947,347</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended October 31, 1975 and 1974 (\$ Thousands)

CONTINUING OPERATIONS

	1975	1974
Sales	\$14,338	\$11,204
Cost of goods and services sold	10,832	8,413
Selling, general and administrative expenses	1,918	1,832
Interest - current	277	252
- long term	137	82
	<u>\$13,164</u>	<u>\$10,579</u>
Operating income from continuing operations	1,174	625
NON-CONTINUING OPERATIONS (Note 2)	45	(150)
INCOME BEFORE INCOME TAXES	\$ 1,219	\$ 475
Provision for income taxes (Note 7)	565	343
INCOME BEFORE TAX LOSS CARRY-FORWARD BENEFIT	\$ <u>654</u>	\$ <u>132</u>
Income tax loss carry-forward benefit (Note 7)	135	275
NET INCOME	<u>\$ 789</u>	<u>\$ 407</u>

EARNINGS PER SHARE

Before tax loss carry-forward benefit	<u>39.9¢</u>	<u>8.6¢</u>
Income tax loss carry-forward benefit	8.3¢	17.8¢
Net income	48.2¢	26.4¢

Earnings per share are computed on the weighted average of shares issued excluding 750,000 escrowed shares cancelled in 1974.

The accompanying notes to financial statements are an integral part of this statement.

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended October 31, 1975 and 1974 (\$ Thousands)

FUNDS WERE PROVIDED BY:

	<u>1975</u>	<u>1974</u>
Income before tax loss carry-forward benefit	\$ 654	\$ 132
Add amounts not requiring an outlay of working capital		
— Depreciation	180	159
— Deferred taxes	(27)	19
Total funds provided by operations	<u>\$ 807</u>	<u>\$ 310</u>
Tax loss carry-forward benefit	135	275
Sale of fixed assets	18	19
Long-term borrowings	59	453
Shares issued - for cash		150
	<u>\$ 1,019</u>	<u>\$ 1,207</u>

FUNDS WERE USED FOR:

Purchase of plant and equipment	\$ 238	\$ 290
Reduction of long-term debt	169	316
Other		5
	<u>\$ 407</u>	<u>\$ 611</u>

INCREASE IN WORKING CAPITAL	<u>\$ 612</u>	<u>\$ 596</u>
WORKING CAPITAL END OF YEAR	<u>\$ 1,025</u>	<u>\$ 413</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at October 31, 1975 and 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Renn Industries Inc. and Subsidiary Companies. All intercompany transactions and accounts have been eliminated on consolidation.

(b) Inventories

Inventories are costed at the lower of first-in, first-out and net realizable value. Incomplete construction contracts are accounted for on the completed contract method.

(c) Depreciation

Depreciation is calculated on the diminishing balance method. The rates set out below are estimated to be sufficient to depreciate the cost of assets to their residual value over their useful lives.

Buildings	5% - 10% per annum
Mobile Equipment	20% - 30% per annum
Machinery & Equipment	15% - 20% per annum
Other	10% - 20% per annum

The cost and related depreciation of equipment retired or otherwise disposed of in the normal course of business is removed from the accounts. Maintenance and repairs are charged to income as incurred and major renewals and improvements are capitalized.

(d) Income Taxes

In calculating the provision for income taxes in each year's Statement of Operations, all income and expense transactions of each year are taken into consideration, regardless of the years in which the transactions are reported in income tax returns. Deferred taxes arise from claiming more depreciation for tax purposes than that which is charged in the accounts.

2. NON-CONTINUING OPERATIONS

As reported in 1974, management decided that B.R. Steel Fabricators Ltd. should abandon its job shop activities in 1975 because it was not generating a satisfactory return on investment. In 1974, that company had a loss of \$150,000; the operating loss was \$77,000 and the provision for loss on discontinuance was \$73,000. During the last five months of its operation, ended March, 1975, B.R. Steel earned a profit of \$45,000.

3. PROPERTY, PLANT AND EQUIPMENT, (\$ Thousands)

	COST	1975 ACCUMULATED DEPRECIATION	NET	1974 NET
Land	\$ 155	\$	\$ 155	\$ 155
Buildings	627	129	498	494
Machinery and equipment	603	217	386	379
Mobile equipment	454	194	260	240
Other	104	44	60	51
	<u>\$1,943</u>	<u>\$ 584</u>	<u>\$1,359</u>	<u>\$1,319</u>

4. ACCOUNTS PAYABLE AND ACCRUED CHARGES (\$ Thousands)

	1975	1974
Accounts payable and accrued charges	\$2,424	\$1,759
Payable to officers and directors	63	57
Agreements payable (i)	64	75
Minority interest (ii)		16
	<u>\$2,551</u>	<u>\$1,907</u>

RENN INDUSTRIES INC.

and SUBSIDIARY COMPANIES

(i) Agreements Payable

The agreements payable represent the balance due in respect of the acquisition of the two Renn Sales Subsidiary Companies. In case of default, the vendors may repossess the shares of the Subsidiaries upon refund of a portion of the purchase price already paid. These agreements have been postponed in favour of the debenture payable.

(ii) Minority Interest

The minority interest consisted of all the redeemable preferred shares of a Subsidiary. These shares were redeemed in 1975.

5. DEBENTURE PAYABLE

The debenture is payable on demand and is secured by a floating charge on all assets and undertakings of the Company and its Subsidiaries and a fixed charge on receivables and pledge of inventories. Interest is payable at the Canadian prime bank rate plus 8% with a stated minimum of 12%. The Company and its Subsidiaries have agreed that while the agreement is in force, they will not, without the prior consent of the creditor:

- (a) Declare or pay any dividends;
- (b) Make capital expenditures in any company in excess of \$25,000 in any one fiscal period;
- (c) Become guarantor of any other obligation;
- (d) Lend any monies or acquire shares in any other corporation.

The debenture payable in the amount of \$99,000 is net of \$598,000 cash drawn down in October, 1975, and on hand at year end.

6. LONG-TERM DEBT (\$ Thousands)

	<u>1975</u>	<u>1974</u>
Debenture - Alberta Treasury Branch	\$ 282	\$ 343
Repayable at \$8,190 per month, principal and interest at prime plus 3%; carries a first charge on fixed assets of Renn-Cupit Mfg. Ltd. (carrying value \$796,906 and \$768,004 at October 31, 1975 and 1974 respectively) and other charges.		
Debenture - Federal Business Development Bank	340	350
Repayable by 10 monthly instalments of \$1,000 followed by 30 monthly instalments of \$3,000 and the balance at \$4,000 per month, and interest at 13½%; carries a second charge on fixed assets of Renn-Cupit Mfg. Ltd. and all other fixed assets not otherwise pledged, plus other charges.		
Mortgage payable - National Trust Company	94	97
Repayable at \$952 per month, principal and interest at 10%; carries a first charge on land and buildings of Renn Sales Ltd. (carrying value of \$147,716 and \$153,007 at October 31, 1975 and 1974 respectively).		
Finance contracts and lease purchase agreements	217	221
Repayable at approximately \$8,700 per month in 1975 (\$5,300 per month in 1974) principal and interest, carries charges against specific equipment		
	<u>\$ 933</u>	<u>\$1,011</u>
Less current portion, included in current liabilities	<u>185</u>	<u>153</u>
	<u>\$ 748</u>	<u>\$ 858</u>

The estimated principal retirements of the long-term debt are: (\$ Thousands)

1977		\$ 190
1978		166
1979		100
1980		52
1981		52
After		188
		<u>\$ 748</u>

7. INCOME TAXES

Under Canadian income tax law, each Company is taxed as an individual entity. The high income taxes in 1974 result from the inability to offset profits in some of the Companies, for income tax purposes, against the losses of others. The income tax loss carry-forward benefit arises from the carry forward of unclaimed expenses from prior periods. Of the \$325,000 of expenses not claimed for tax purposes at October 31, 1974, \$25,000 remain to be claimed against future taxable income.

8. CONTINGENT LIABILITIES — ENDORSED CUSTOMERS' NOTES

A Subsidiary Company is contingently liable as endorser of customers' notes in the approximate amount of \$165,000. This comprises relatively small individual amounts, all of which were in good standing at October 31, 1975. This contingency amounted to \$95,000 at October 31, 1974.

9. STATUTORY INFORMATION

(a) Remuneration to Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company and its Subsidiaries to its directors, senior officers and five highest paid employees amounted to \$343,000 in 1975 and \$319,406 in 1974.

(b) Categories of Company Sales

The Company's sales from continuing operations are split into the following major categories:

	<u>1975</u>	<u>1974</u>
Manufacturing, fabricating and service	48%	47%
Wholesaling	52%	53%

AUDITORS' REPORT

To The Shareholders of
Renn Industries Inc.:

We have examined the consolidated balance sheets of Renn Industries Inc. (a British Columbia company) and Subsidiary Companies as of October 31, 1975 and 1974, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1975 and 1974, the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied during the periods. In our opinion, due provision has been made for minority interest.

Calgary, Alberta
February 27, 1976.

ARTHUR ANDERSEN & CO.
Chartered Accountants

AR43



ad corp
Interim Report

to

The Shareholders

SIX MONTHS ENDED APRIL 30, 1975

RENN INDUSTRIES INC.

REPORT TO SHAREHOLDERS

We are pleased to report that in the first six months of this fiscal period, your Company continued last year's surge forward in terms of a substantial increase in profits.

FIRST SIX MONTH'S HIGHLIGHTS

- * Net income after taxes are up from \$65,000 (restated) in 1974, to \$308,000 this year — over a four-fold increase. All Divisions are profitable.
- * Sales are up only 11% over the first six months of 1974. This was influenced by several factors: a conscious policy to eliminate unprofitable lines, which of course is reflected in higher profits as noted above; a continuing shortage of certain categories of agricultural equipment for resale; and, a predicted decline in sales in a softening U.S. market.
- * Renn-Cupit Industries, particularly in the Industrial Hoist and Box Division, is significantly ahead of last year.

Typically, the second half of a fiscal year in Renn Industries Inc. is more profitable than the first half, and we expect that seasonal pattern to continue in 1975.

The dramatic increase in profitability reflects the vigour, dedication, and the entrepreneurial flair of our employees to respond to rapidly changing conditions.

T. F. Tyson,
President.

June 23, 1975.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. RESTATEMENT FOR COMPARABILITY

The President's Message to the Shareholders in the 1974 Annual Financial Statements reported that Renn Industries would disclose losses when they are first known, and allow income to be recognized only when realized, to improve the accuracy and timeliness of disclosure and ensure a conservative approach to reporting of financial results. In Note 5 to the 1974 Audited Financial Statements, we reported that:

- a) \$444,398 of contract costs of the Feed Mill Construction Division identified in 1974 were related to 1973.
- b) A provision for loss of \$73,000 on discontinuance of B. R. Steel Fabricators Ltd. was made in 1974.
- c) The transactions related to the Feed Mill Construction Division and B. R. Steel Fabricators were shown in 1973 and 1974, for comparability purposes, as "Non-Continuing Operations".

The first six month's operating results of 1974 as originally reported have been restated to reflect the accounting approach explicit in 1 a) and b) above, and the six month's operating results of 1975 of B. R. Steel Fabricators have also been shown as "Non-Continuing Operations".

2. INCOME TAX LOSS CARRY-FORWARD BENEFIT

As a result of the restatement of prior years' (See note 3 of the 1974 Annual Financial Statements), the losses not yet claimed for tax purposes at October 31, 1973 were increased. In restating the first six month's results for 1974, the change in the amount of the 1973 loss carry-forward was taken into consideration.

In calculating the net income for 1974 (restated) and 1975, we have deducted one-half of the income tax losses eligible as a carry-forward benefit from prior years.

